

EDITORIAL

Michigan's problems can't be solved at the gas pump

High gasoline prices are a major factor holding back Michigan's recovery. And an unchecked sales tax on this critical commodity is part of the problem.

A natural catastrophe such as Hurricane Katrina can send gas prices soaring in a very short time. When that happens, the state of Michigan reaps a windfall on the higher prices drivers pay, even as they drive fewer miles.

Gas that costs \$1 a gallon — don't we wish — generates six cents for Lansing coffers; at \$2 it brings 12 cents; and \$3 results in 18 cents. If it should reach \$4, we would be paying 24 cents a gallon to the state. Since Michigan residents buy 5 billion gallons a year — at \$1 a gallon, that's \$245 million for the state; at \$2, it is \$550 million; and at \$3, around \$850 million.

The state charges a little less than 6 percent sales tax for gasoline. This is because the sales tax is not applied to the 19 cents a gallon tax the state collects for roads, but it does apply to the 18.3 cents that go to the federal government.

Given the state's budgetary crisis, there are some in Lansing who see this windfall as a solution. After all, it pumps much-needed money into K-12 education and the general fund, and taxing gas is a good way to encourage conservation. But a \$300 million jackpot from sudden gas price increases is not going to solve the state's budget problems.

The reason state revenue is down is that Michigan's unemployment is among the highest in the nation. Residents realize their state is near the nation's bottom, economically, so they are less likely to spend a lot of money,

which would pump up Michigan's sales tax revenue.

Solving such a general sales tax shortfall by taking advantage of a run-up in gas prices is counterproductive. It is adding to the state's economic problems rather than helping solve them, thus restoring a healthy flow of sales tax revenue.

Michigan's budget problems are the result of too much spending and too little revenue. They should not be solved by what is, in effect, a tax increase.

One possible solution is legislation introduced by Rep. Robert Gosselin, R-Troy. House Bill 4204 would cap the state's 6 percent sales tax on gas at \$2.30 per gallon. Beyond that, the tax would not be charged.

That's a pretty good compromise. It would make the flow of commerce easier rather than adding to the problem of sudden fuel price increases. Gas gets people to work, goods to market, supplies to factories and tourists to destinations. When it goes up, everything costs more.

A cap at \$2.30 a gallon would still provide the state with a generous increase in sales tax revenue, which is split about 25/75 between the general fund and K-12 education.

Apparently, the state House of Representatives agrees, because it passed HB 4204 unanimously and sent it to the Senate.

Let's hope senators see it the same way.

THE OAKLAND PRESS

GOOD MORNING

Welcome back, Indiana Pacers.

Oakland Press, Sept. 16, 2005



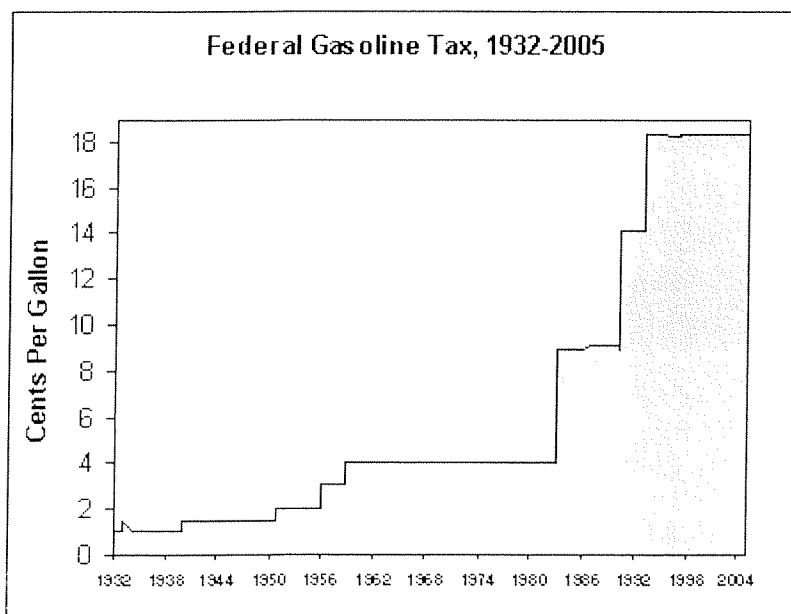
September 13, 2005

Local, State and Federal Gas Taxes Consume 45.9 Cents Per Gallon on Average

by Jonathan Williams

In the wake of Hurricane Katrina and the devastation that has followed, consumers are feeling the economic consequences of the disaster. Record gasoline prices are constantly in the headlines, which leaves many asking why prices are so high. While supply and demand are the primary determinants of gasoline prices, a significant portion of the price consumers pay at the pump can be attributed to gasoline taxes. In fact, the federal gas tax alone equals 18.4 cents for every gallon purchased (See Figure 1).

Figure 1. The Rising Federal Gasoline Excise Tax



Source: Congressional Research Service, Tax Foundation.

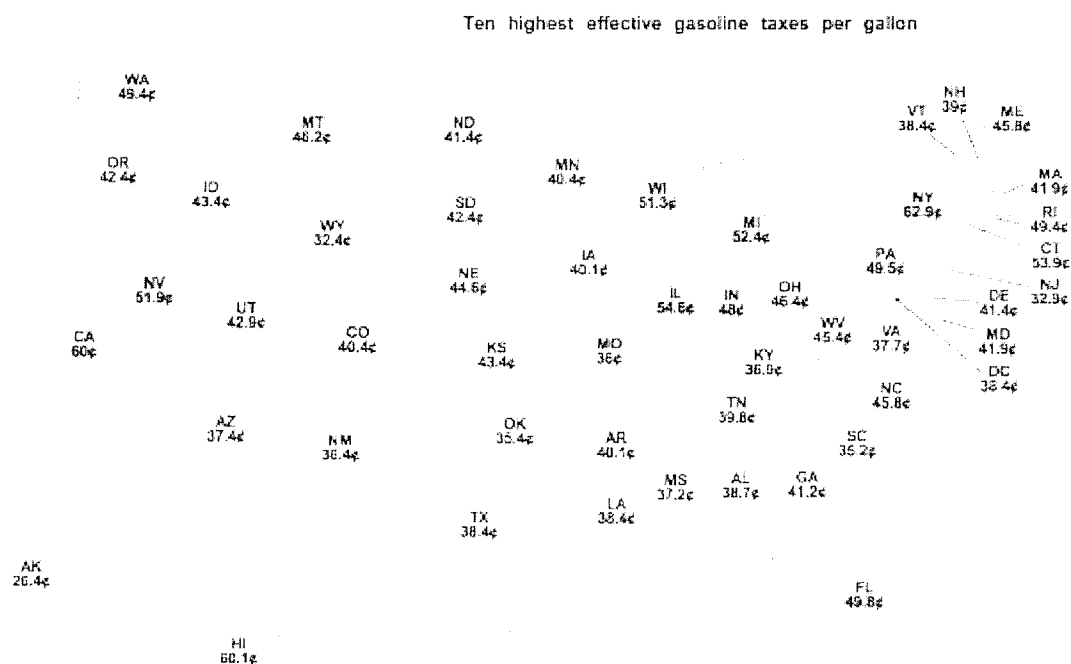
In 1932, the federal government imposed the first federal gas tax. It began as a

temporary levy with a rate of just 1 cent per gallon. Over the years, the tax burden has increased significantly. The Revenue Act of 1941 made the federal gas tax permanent and increased the rate to 1.5 cents per gallon to help fund the war effort. A decade later in 1951, the tax was increased to 2 cents per gallon to assist in the funding of the Korean War.

After President Eisenhower's idea of an interstate highway system had been instituted, the federal gas tax was raised to 4 cents per gallon in 1959. As recent as 1981, the federal gas tax remained at 4 cents per gallon. Significant tax increases in 1982, 1990 and 1993 increased the federal gas tax by 14.4 cents per gallon, or 360 percent from 1981 levels.

In 1919, Oregon became the first state in the nation to place a tax on gasoline and every state has subsequently adopted this form of taxation. This year, according to the Energy Information Administration the average state gas tax is 20.8 cents per gallon. In addition to statewide taxes, often consumers pay local excise taxes on gasoline purchases (see Figure 2).

Figure 2. Combined Local, State and Federal Gasoline Taxes, August 2005
(Click for larger image.)



Source: American Petroleum Institute, Tax Foundation.

Today, the combined burden of federal, state and local gas taxes costs American drivers an average of 45.9 cents on every gallon purchased. As Figure 2 illustrates, in some states the combined taxes exceed 60 cents for every gallon purchased. According to data on gasoline use from the U.S. Department of Transportation, that amounts to an annual gas tax burden of roughly \$271 for every man, woman and child in the United States. In these times of concern over high gas prices, American consumers should remember that gasoline taxes have a significant impact on the amount they spend at the pump.

(For more information, contact [Jonathan Williams](#) at (202) 464-5119.)

Attached Files

- [Federal Gasoline Excise Tax, 1932-2005, XLS, 61.5 KB](#)
by [Jonathan Williams](#)